

HARTLAND DEERFIELD
FIRE AUTHORITY

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2008

HARTLAND DEERFIELD FIRE AUTHORITY

AUTHORITY BOARD MEMBERS

Joe Petrucci - Chairperson
Al Mattioli - Vice Chairperson
Glenn Harper - Secretary
Bruce Dehanke - Trustee
Tom Green - Trustee

OTHER AUTHORITY BOARD NON-MEMBERS and (non-voting) INDIVIDUALS

Adam Carroll - Fire Chief
Susan Dryden-Hogan - Treasurer
Jennifer Drew - Assistant Secretary

ATTORNEY

Gentry Law Offices, P.C.

AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

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PFEFFER ■ HANNIFORD ■ PALKA
Certified Public Accountants

John M. Pfeffer, C.P.A.
Patrick M. Hanniford, C.P.A.
Kenneth J. Palka, C.P.A.

Members:
AICPA Private Practice Companies Section
MACPA

225 E. Grand River - Suite 104
Brighton, Michigan 48116-1575
(810) 229-5550
FAX (810) 229-5578

August 22, 2008

Board of Trustees
Hartland Deerfield Fire Authority
3205 Hartland Road
Hartland, Michigan 48353

INDEPENDENT AUDITORS' REPORT

Honorable Board of Trustees:

We have audited the accompanying financial statements of the Hartland Deerfield Fire Authority as of and for the year ended March 31, 2008. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hartland Deerfield Fire Authority, as of March 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year end in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and other required supplementary information on pages 6 through 9 and pages 29 through 31 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hartland Deerfield Fire Authority's basic financial statements. The supplementary information presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MANAGEMENT DISCUSSION
AND
ANALYSIS

Management Discussion and Analysis March 31, 2008

Within this section of the Hartland Deerfield Fire Authority's annual financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended March 31, 2008. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's basic financial statements. The basic financial statements include government-wide financial statements, fund financial statements, and notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

Government-Wide Financial Statements

The Authority's annual reports include two government-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Activities which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

Both government-wide financial statements distinguish governmental activities of the Authority that are intended to recover all or a significant portion of their costs through user fees and charges or by taxes collected. The Authority's financial reporting includes all the funds of the Authority and, additionally, organizations for which the Authority is accountable.

Fund Financial Statements

A fund is an accountability unit used to maintain control over resources segregated for specific activities or objectives. The Authority uses funds to ensure and demonstrate compliance with finance-related laws and regulations.

The Authority has one kind of fund which is a governmental fund.

Governmental funds are reported in the financial statements and encompass essentially the same functions as governmental activities in the government-wide financial statements except with a different focus on the financial activity. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of these resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term. Since the focus of the government-wide financial statements includes a long-term view, a reconciliation of these fund balances has been completed to detail its relation to net assets.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of both the government-wide and fund financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Other supplementary information includes detail by fund for receivables, payables, transfers, and payments within the reporting entity.

Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$900,774. This is a \$28,685 increase over last year's net assets of \$872,089.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

Summary of Net Assets

	Governmental Activities	
	3/31/2008	3/31/2007
Current and other assets	\$ 518,190	\$ 456,110
Capital assets	729,980	859,619
Total assets	1,248,170	1,315,729
Accounts payable	17,685	24,721
Accrued expenses	55,187	47,998
Notes and capital leases payable	274,524	370,921
Total liabilities	347,396	443,640
Net assets:		
Invested in capital assets	520,974	571,687
Unrestricted	379,800	300,402
Total net assets	\$ 900,774	\$ 872,089

Summary of Changes in Net Assets

	Governmental Activities	
	3/31/2008	3/31/2007
Revenues:		
Program revenues		
Charges for services	\$ 43,341	\$ 42,822
Operating grants and contributions	1,095,566	904,761
General revenues		
Interest income	12,966	12,757
Other	3,310	3,582
Total revenues	1,155,183	963,922
Expenses for fire protection	1,126,498	1,165,579
Increase (decrease) in net assets	28,685	(201,657)
Beginning net assets	872,089	1,073,746
Ending net assets	\$ 900,774	\$ 872,089

Financial Analysis of the Authority's Funds

The Authority's General Fund had excess revenues over expenditures of \$58,792 before transferring \$165,235 to open the Authority's other major fund, the Capital Reserve Equipment Fund, giving an ending general fund balance of \$276,948.

General Fund Budgetary Highlights

The original General Fund budget adopted by the Authority was created prior to the beginning of the fiscal year outlining the Authority's anticipated financial operations. An amendment was required from the originally adopted budget to reflect the economic reality of the Authority, and transfers to create the new Capital Reserve Equipment Fund.

Capital Asset and Debt Administration

The Authority did not purchase or dispose of any capital assets during the fiscal year ended March 31, 2008.

No new debt was incurred by the Authority, but did pay \$96,397 of principal on the outstanding debt held by the Authority. Total long-term debt at March 31, 2008 was \$274,524.

Economic Conditions and Future Activities

Future operations will continue to be funded by contributions from member municipalities. However, since Tyrone Township has terminated its membership effective March 31, 2007 there is some uncertainty as to the long-term financial ramifications this event will cause.

Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have any further questions about this report or request additional information please contact the Hartland Deerfield Fire Authority.

BASIC
FINANCIAL
STATEMENTS

GOVERNMENT-WIDE
FINANCIAL
STATEMENTS

HARTLAND DEERFIELD FIRE AUTHORITY
STATEMENT OF NET ASSETS
MARCH 31, 2008

	<u>Governmental Activities</u>
 <u>ASSETS</u>	
ASSETS	
Cash and cash equivalents	\$ 349,444
Receivables	
Fire runs	12,067
Tyrone Township	156,000
State	679
Capital assets - net of depreciation	<u>729,980</u>
Total assets	<u>1,248,170</u>
 <u>LIABILITIES</u>	
LIABILITIES	
Accounts payable	17,685
Accrued wages/taxes	30,263
Accrued vacation and sick time	11,712
Accrued pension	13,212
Note payable - Hartland Township	
Current	17,471
Non-current	48,047
Capital leases payable	
Current	67,986
Non-current	<u>141,020</u>
Total liabilities	<u>347,396</u>
 <u>NET ASSETS</u>	
NET ASSETS	
Invested in capital assets, net of related debt	520,974
Unrestricted	<u>379,800</u>
Total net assets	<u>\$ 900,774</u>

The accompanying notes are an integral part of these financial statements.

HARTLAND DEERFIELD FIRE AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Programs Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Contributions</u>	
Governmental activities:				
Fire protection	\$ (1,113,029)	\$ 43,341	\$ 1,095,566	\$ 25,878
Interest on long-term debt	<u>(13,469)</u>			<u>(13,469)</u>
Total governmental activities	<u>\$ (1,126,498)</u>	<u>\$ 43,341</u>	<u>\$ 1,095,566</u>	<u>12,409</u>
General Revenues:				
Interest income				12,966
Other income				<u>3,310</u>
Total general revenues				<u>16,276</u>
Changes in net assets				28,685
Net assets, April 1, 2007				<u>872,089</u>
Net assets, March 31, 2008				<u>\$ 900,774</u>

The accompanying notes are an integral part of these financial statements.

FUND
FINANCIAL
STATEMENTS

HARTLAND DEERFIELD FIRE AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2008

	General Fund	Capital Reserve Equipment Fund	Total
<u>ASSETS</u>			
ASSETS			
Cash	\$ 247,024	\$ 102,420	\$ 349,444
Accounts receivable			
State	679		679
Fire runs	12,067		12,067
Tyrone Township			
Operations	156,000		156,000
Due from other funds		65,950	65,950
	<u>415,770</u>	<u>168,370</u>	<u>584,140</u>
Total assets	<u>\$ 415,770</u>	<u>\$ 168,370</u>	<u>\$ 584,140</u>
<u>LIABILITIES AND FUND BALANCE</u>			
LIABILITIES			
Accounts payable	\$ 17,685	\$	\$ 17,685
Accrued wages	25,493		25,493
Accrued wages and sick time	11,712		11,712
Accrued payroll taxes	4,770		4,770
Accrued pension	13,212		13,212
Due to other funds	65,950		65,950
	<u>138,822</u>		<u>138,822</u>
Total liabilities	<u>138,822</u>		<u>138,822</u>
FUND BALANCES			
Fund balance - undesignated	276,948	168,370	445,318
	<u>415,770</u>	<u>168,370</u>	<u>584,140</u>
Total liabilities and fund balances	<u>\$ 415,770</u>	<u>\$ 168,370</u>	<u>\$ 584,140</u>

The accompanying notes are an integral part of these financial statements.

HARTLAND DEERFIELD FIRE AUTHORITY
RECONCILIATION OF STATEMENT OF NET ASSETS
OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET
MARCH 31, 2008

Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Total fund balance per balance sheet		\$ 445,318
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		
Historical cost	\$ 1,507,481	
Accumulated depreciation	<u>(777,501)</u>	
Capital assets net of depreciation		729,980
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These include:		
Note payable - Hartland Township	(65,518)	
Bonds payable	<u>(209,006)</u>	
Total		<u>(274,524)</u>
Net assets of governmental activities		<u><u>\$ 900,774</u></u>

The accompanying notes are an integral part of these financial statements.

HARTLAND DEERFIELD FIRE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2008

	General Fund	Capital Reserve Equipment Fund	Total
REVENUES			
Hartland Township - operating contributions	\$ 896,502	\$	\$ 896,502
Deerfield Township - operating contributions	199,064		199,064
Fire runs	43,341		43,341
Interest income	9,831	3,135	12,966
Other revenue	3,310		3,310
	<u>1,152,048</u>	<u>3,135</u>	<u>1,155,183</u>
Total revenues			
EXPENDITURES			
Current			
Personnel	734,543		734,543
Employment	21,499		21,499
Administrative services and supplies	38,349		38,349
Contractual services	41,766		41,766
Operating supplies	51,770		51,770
Repairs and maintenance	56,528		56,528
Utilities	29,585		29,585
Capital outlay			
Fire protection	9,350		9,350
Debt service			
Principal	96,397		96,397
Interest	13,469		13,469
	<u>1,093,256</u>	<u></u>	<u>1,093,256</u>
Total expenditures			
Excess of revenues over (under) expenditures	<u>58,792</u>	<u>3,135</u>	<u>61,927</u>
OTHER FINANCING SOURCES (USES)			
Transfers in		165,235	165,235
Transfers (out)	(165,235)		(165,235)
	<u>(165,235)</u>	<u>165,235</u>	<u></u>
Total other financing sources (uses)			
Net changes in fund balances	(106,443)	168,370	61,927
FUND BALANCE, APRIL 1, 2007	<u>383,391</u>	<u></u>	<u>383,391</u>
FUND BALANCE, MARCH 31, 2008	<u>\$ 276,948</u>	<u>\$ 168,370</u>	<u>\$ 445,318</u>

The accompanying notes are an integral part of these financial statements.

HARTLAND DEERFIELD FIRE AUTHORITY
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2008

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - governmental funds		\$ 61,927
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their useful lives as depreciation expense.		
Depreciation expense		(129,639)
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Repayment of:		
Notes payable - Hartland Township	\$ 17,471	
Capital leases payable	<u>78,926</u>	
		<u>96,397</u>
Change in net assets of governmental activities		<u><u>\$ 28,685</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES
TO
FINANCIAL
STATEMENTS

HARTLAND DEERFIELD FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Hartland Deerfield Fire Authority was organized under Public Act No. 57, of the Public Acts of 1988, as amended in December of 2001 on April 18, 2003. The Authority approved a fiscal year-end date of March 31. The purpose of the Authority is to provide fire protection and other emergency health and safety services. The incorporating municipalities are Hartland Township and Deerfield Township with each municipality being represented by two members and an appointed citizen member at large.

The five board members appoint its own officers which are the chairperson, vice chairperson and secretary/treasurer, as well as select two additional non-voting and non-member individuals.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 39 "The Financial Reporting Entity", these financial statements present all activities of the Authority. There are no component units of the Authority using the criteria established by the GASB for determining the reporting entity.

B. BASIC FINANCIAL STATEMENTS

In accordance with GASB Statement No. 34 - *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of Net Assets and Statement of Activities) report on the Authority as a whole. All activities are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The government-wide Statement of Net Assets reports all financial and capital resources of the Authority. It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity.

The government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the Authority are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Indirect expenses for administrative overhead are allocated among the functions and activities using a full cost allocation approach and are presented separately to enhance comparability of direct expense between governments that allocate direct expenses and those that do not. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

HARTLAND DEERFIELD FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Also, part of the basic financial statements are fund financial statements for the governmental funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures of fund category and of the governmental funds combined), it also gives governments the option of displaying other funds as major funds. Other non-major funds are combined in a single column on the fund financial statements.

The Authority reports the following major governmental funds:

The General Fund is the Authority's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Reserve Equipment Fund accounts for the activity associated with the acquisition of capital assets. This fund is supported by the General Fund and cost recovery revenues.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain modifications must be made to the accrual method. These modifications are outlined below:

- A. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, sales and use taxes, transient occupancy taxes, licenses, fees and permits, intergovernmental revenues, (including motor vehicle license fees), charges for services, fines forfeits and penalties, and interest.
- B. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.
- C. Disbursements for the purchase of capital assets providing future benefits are considered expenditures. Bond proceeds are reported as another financing source.

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

This is the traditional basis of accounting for governmental funds and also is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the Authority's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

D. CAPITAL ASSETS

Under GASB Statement No. 34, all capital assets are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds financial statements.

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than one year. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

HARTLAND DEERFIELD FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

E. MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. BUDGETS

The Authority is required to prepare a proposed annual budget reflecting projected revenues and expenditures of the Authority for the next fiscal year beginning April 1. The proposed budget is presented for the budget meeting in December of the year prior to the end of the fiscal year. The Authority board is then required to submit the proposed budget to the incorporating Municipalities no later than January 1st of each year. After approval of the proposed budget of a two-thirds majority of the incorporating Municipalities, the Authority Board gives final approval to the Authority budget for the next fiscal year. The budget may be adjusted from time to time upon approval by the Authority Board with a two-thirds majority vote.

G. RISK MANAGEMENT

The Authority is exposed to various risks of loss pertaining to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for these claims. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage.

H. ACCRUED COMPENSATED ABSENCES

The Authority has recorded a liability for compensated absences of the fire department. The policies regarding compensated absences are outlined in the Authority's "Rules of Employment".

I. CASH AND CASH EQUIVALENTS

The Authority considers its deposits and investments held with maturities of three months or less to be cash equivalents.

J. INCOME TAXES

As a governmental agency, the Authority is exempt from both federal income taxes and Michigan Single Business Tax.

K. INTERFUND BALANCE AND TRANSFERS

The Authority's General Fund made operating transfers totaling \$165,235 to create the Capital Reserve Equipment Fund to provide for future capital purchases in the Authority. Only \$99,315 of that transfer has been paid, leaving \$65,950 of interfund payables/receivables at March 31, 2008. These receivables/payables are short-term in nature, and is expected to be repaid in the next fiscal year.

HARTLAND DEERFIELD FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

NOTE 2 - CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2008 was as follows:

	Balances 4/1/2007	Additions	Deletions	Balances 3/31/2008
Operating equipment	\$ 89,150	\$	\$	\$ 89,150
Transportation equipment	1,418,331			1,418,331
	1,507,481			1,507,481
Accumulated depreciation	(647,862)	(129,639)		(777,501)
Governmental activities capital assets, net	<u>\$ 859,619</u>	<u>\$ (129,639)</u>	<u>\$</u>	<u>\$ 729,980</u>

Depreciation expense is being recorded solely for fire protection services. The Authority utilizes the straight line method to depreciate capital assets over their estimated useful lives. There is \$209,006 of debt associated with the transportation equipment.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers; acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	Carrying Amount	Bank Balance
Insured	\$ 100,000	\$ 100,000
Uninsured and uncollateralized	249,334	260,272
	<u>\$ 349,334</u>	<u>\$ 360,272</u>

The Authority maintains an imprest petty cash fund of \$110.

HARTLAND DEERFIELD FIRE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (continued)

The Authority's cash and investments are subject to types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had \$260,272 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limited of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions which an acceptable estimated risk level are used as depositories.

Concentration of Credit Risk

The Authority places no limit on the amount the Authority may invest in any one issuer.

NOTE 4 - LEASE AGREEMENT

The Authority has a signed lease agreement with Hartland Township to lease the fire hall located at 3205 Hartland Road #61 and the sub-station located at 5965 Old US 23 #62 for \$1 per year for 10 years effective October 1, 2003.

NOTE 5 - LONG-TERM DEBT

The following is a summary of long-term debt activity for the Authority:

	Balances 4/1/2007	Additions	Deletions	Balances 3/31/2008	Due in One Year
CAPITAL LEASES					
GMAC - 2 trucks	\$ 17,752	\$	\$ 15,764	\$ 1,988	\$ 1,988
Oshkosh Capital - 2004 pierce	270,180		63,162	207,018	65,998
Total capital leases	287,932		78,926	209,006	67,986
NOTE PAYABLE - HARTLAND TOWNSHIP SCBA equipment	82,989		17,471	65,518	17,471
Total debt	\$ 370,921	\$	\$ 96,397	\$ 274,524	\$ 85,457

HARTLAND DEERFIELD FIRE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

NOTE 5 - GENERAL LONG-TERM DEBT (continued)

CAPITAL LEASES

1. GMAC - 2 trucks - As part of the asset transfer agreement between the Authority and Hartland Township, the Authority took over two loans with GMAC originally assigned to Hartland Township at the net present value of \$72,250. The loans were financed with no interest. The monthly payment amounts are \$639.01 and \$674.63 for a 2003 pick-up truck and 2003 C2500 truck respectively until their maturity in April and May 2008 respectively.
2. Oshkosh Capital - 2004 Pierce - The Authority entered into a capital lease to purchase a 2004 pumper. The Authority is responsible for annual payments of \$75,293.25 which includes interest of 4.49%. The maturity date is March 31, 2011.

NOTE PAYABLE

1. The Authority issued a note payable on October 15, 2004 to Hartland Township to purchase SCBA equipment totaling \$122,300. The loan requires quarterly payments of \$4,367.86 plus 1.75% interest of the unpaid balance until maturity in the year ended March 31, 2012.

The following schedule details future debt outflows of the Authority:

<u>Date of Payment</u>	<u>CAPITAL LEASES</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
3/31/2009	\$ 67,986	\$ 9,295	\$ 77,281
3/31/2010	68,961	6,332	75,293
3/31/2011	72,059	3,235	75,294
Totals	<u>\$ 209,006</u>	<u>\$ 18,862</u>	<u>\$ 227,868</u>

<u>Date of Payment</u>	<u>NOTE PAYABLE - HARTLAND TOWNSHIP</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
3/31/2009	\$ 17,471	\$ 1,032	\$ 18,503
3/31/2010	17,471	726	18,197
3/31/2011	17,471	420	17,891
3/31/2012	13,105	115	13,220
Totals	<u>\$ 65,518</u>	<u>\$ 2,293</u>	<u>\$ 67,811</u>

HARTLAND DEERFIELD FIRE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

**NOTE 6 - DEFINED BENEFIT PLAN -
MICHIGAN MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (MERS)**

The Authority provides a defined benefit pension plan under MERS. MERS is an agent multiple-employer; state-wide, defined benefit public employee retirement plan created under Public Act 135 of 1945 and now operates under Public Act 220 of 1996. MERS was established by the State of Michigan for purposes of providing retirement, survivor and disability benefits on a voluntary basis to the State's local government employees. Under Public Act 220, MERS became an independent public non-profit corporation independent from State government. The effective date of independence was August 16, 1996, at which time MERS ceased to be a part of the State of Michigan, Department of Management and Budget.

As of March 31, 2008 the Authority had four covered employees and 79 total employees. Covered and total payrolls for the year then ended were \$216,204 and \$611,675 respectively. Currently there are no retirants receiving benefits from the plan. Total contributions made to the plan during the year ended were \$27,155.

At December 31, 2007, the unfunded pension liability was \$44,367, determined as follows:

Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$ 0
Terminated employees not yet receiving benefits	0
Current employees - Accumulated employee contributions including allocated investment income	0
Employer financed	<u>157,768</u>
Total actuarial accrued liability	157,768
Net assets available for benefits at actuarial value	<u>113,401</u>
Unfunded actuarial accrued liability	<u><u>\$ 44,367</u></u>

The combined change in the pension benefit resulting from benefit changes, if any, and revisions in actuarial assumptions is 0.055889.

Analysis of Funding Progress

Valuation Date <u>December 31</u>	Net Assets Available for Benefits	Pension Benefit Obligation (PBO)	Percent Funded (1)/(2)	Unfunded (Over funded) PBO (2)-(1)	Annual Covered Payroll	Unfunded PBO as a % of Covered Payroll
2004	22,499	26,986	83%	4,487	190,021	2%
2005	51,287	63,563	81%	12,276	200,627	6%
2006	81,887	107,911	76%	26,024	207,128	13%
2007	113,401	157,768	72%	44,367	214,203	21%

Actuarial data beyond December 31, 2007 was not available as of the writing of this report.

HARTLAND DEERFIELD FIRE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

NOTE 7 - EMPLOYEE RETIREMENT PLAN

The Authority participated in the ING Financial Defined Contribution Pension Plan Group No. 89571 for Michigan Authority employees until December 2007. Starting January 2008 the Authority began participating in the First Investors Defined Contribution Pension Plan Group. Both plans are a single-employer plan. As of March 31, 2008 ING Financial Funds have not been completely transferred to First Investors for all participating employees. Substantially all full-time employees are included in one of the plans. Six months of service is required to determine eligibility. The Authority contributes 5% of participant's compensation, while an employee may contribute 1% to 25% of compensation pre-tax. Annual compensation used to determine the current year contribution is as of April 1, preceding the year. Contribution information is as follows:

TOTAL CURRENT YEAR EMPLOYER CONTRIBUTIONS	<u>\$11,810</u>
TOTAL CURRENT YEAR EMPLOYEE CONTRIBUTIONS	<u>\$ 7,372</u>

These balances reflect contributions for the period from April 1, 2007 to March 31, 2008.

NOTE 8 - NOTE RECEIVABLE - SETTLEMENT WITH TYRONE TOWNSHIP

Tyrone Township withdrew from the Authority effective March 31, 2006. After mediation the remaining Authority members (Hartland and Deerfield Townships) and Tyrone Township came to an agreement regarding the settlement amount between both parties. The agreement calls for Tyrone Township to pay \$325,000 to the Authority as \$130,000 down and five equal annual installments of \$39,000 with no interest. The down payment of \$130,000 was paid prior to March 31, 2007 and a note receivable for \$195,000 was set-up for the remaining amount. As of March 31, 2008 there is an outstanding balance of \$156,000 due to the Authority.

REQUIRED
SUPPLEMENTARY
INFORMATION

HARTLAND DEERFIELD FIRE AUTHORITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2008

	Budgets		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Hartland Township - contributions	\$ 896,502	\$ 896,502	\$ 896,502	\$
Deerfield Township - contributions	199,064	199,064	199,064	
Fire runs	47,000	47,000	43,341	(3,659)
Interest income	6,000	6,000	9,831	3,831
Other revenue			3,310	3,310
Total revenues	<u>1,148,566</u>	<u>1,148,566</u>	<u>1,152,048</u>	<u>3,482</u>
EXPENDITURES				
Personnel	682,857	769,408	734,543	34,865
Employment	31,000	21,650	21,499	151
Administrative services and supplies	41,750	41,960	38,349	3,611
Contingency	6,500			
Contractual services	52,250	38,350	41,766	(3,416)
Operating supplies	49,953	45,853	51,770	(5,917)
Repairs and maintenance	50,350	55,460	56,528	(1,068)
Utilities	35,240	29,580	29,585	(5)
Capital outlay and debt repayment	128,666	119,316	119,216	100
Total expenditures	<u>1,078,566</u>	<u>1,121,577</u>	<u>1,093,256</u>	<u>28,321</u>
Excess of revenues under (over) expenditures	70,000	26,989	58,792	31,803
OTHER FINANCING SOURCES (USES)				
Transfers (out)	<u>(70,000)</u>	<u>(26,950)</u>	<u>(165,235)</u>	<u>(138,285)</u>
Net change in fund balance		39	(106,443)	(106,482)
BEGINNING FUND BALANCE	<u>383,391</u>	<u>383,391</u>	<u>383,391</u>	
ENDING FUND BALANCE	<u>\$ 383,391</u>	<u>\$ 383,430</u>	<u>\$ 276,948</u>	<u>\$ (106,482)</u>

HARTLAND DEERFIELD FIRE AUTHORITY
CAPITAL RESERVE EQUIPMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2008

	Budgets			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES				
Interest	\$	\$	\$ 3,135	\$ 3,135
EXPENDITURES				
Excess of revenues over (under) expenditures			3,135	3,135
OTHER FINANCING SOURCES (USES)				
Transfers in	70,000	26,950	165,235	138,285
Net change in fund balance	70,000	26,950	168,370	141,420
FUND BALANCE, APRIL 1, 2007				
FUND BALANCE, MARCH 31, 2008	<u>\$ 70,000</u>	<u>\$ 26,950</u>	<u>\$ 168,370</u>	<u>\$ 141,420</u>

HARTLAND DEERFIELD FIRE AUTHORITY
SCHEDULES OF PENSION FUNDING PROGRESS (UNAUDITED)
FOR THE YEAR ENDED MARCH 31, 2008

In accordance with the Governmental Accounting Standards Board Statements No. 25 and 27, the following information is a required part of the basic financial statements.

FIRE EMPLOYEES

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded (Over funded) Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
December 31, 2004	\$ 22,499	\$ 26,986	\$ 4,487	83.37%	\$ 190,021	2.36%
December 31, 2005	\$ 51,287	\$ 63,563	\$ 12,276	80.69%	\$ 200,627	6.12%
December 31, 2006	\$ 81,887	\$ 107,911	\$ 26,024	75.88%	\$ 207,128	12.56%
December 31, 2007	\$ 113,401	\$ 157,768	\$ 44,367	71.88%	\$ 214,203	20.71%

SUPPLEMENTARY
INFORMATION

HARTLAND DEERFIELD FIRE AUTHORITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Hartland Township - contributions	\$ 896,502	\$ 896,502	\$
Deerfield Township - contributions	199,064	199,064	
Fire runs	47,000	43,341	(3,659)
Interest income	6,000	9,831	3,831
Other revenue		3,310	3,310
	<u>1,148,566</u>	<u>1,152,048</u>	<u>3,482</u>
Total revenues			
EXPENDITURES			
Personnel	769,408	734,543	34,865
Employment	21,650	21,499	151
Administrative services and supplies	41,960	38,349	3,611
Contractual services	38,350	41,766	(3,416)
Operating supplies	45,853	51,770	(5,917)
Repairs and maintenance	55,460	56,528	(1,068)
Utilities	29,580	29,585	(5)
Capital outlay and debt repayment	119,316	119,216	100
	<u>1,121,577</u>	<u>1,093,256</u>	<u>28,321</u>
Total expenditures			
Excess of revenues under (over) expenditures	26,989	58,792	31,803
OTHER FINANCING (USES)			
Transfers (out)	(26,950)	(165,235)	(138,285)
	<u>39</u>	<u>(106,443)</u>	<u>(106,482)</u>
Net change in fund balance			
BEGINNING FUND BALANCE	<u>383,391</u>	<u>383,391</u>	
ENDING FUND BALANCE	<u>\$ 383,430</u>	<u>\$ 276,948</u>	<u>\$ (106,482)</u>

HARTLAND DEERFIELD FIRE AUTHORITY
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
PERSONNEL			
Chief wages	\$	\$ 77,359	\$
Scheduled employee wages		123,938	
Scheduled employee - overtime wages		2,034	
On-call employees' wages		377,836	
Per diems - fire board wages		5,575	
Payroll taxes		43,936	
Medical insurance		15,536	
Disability - life insurance		12,495	
Workers compensation insurance		36,869	
Retirement (MERS and deferred compensation)		38,965	
	<u>769,408</u>	<u>734,543</u>	<u>34,865</u>
Total personnel			
EMPLOYMENT			
Uniforms and clothing allowance		2,625	
Physicals and medical expense		7,060	
Education and training		11,814	
	<u>21,650</u>	<u>21,499</u>	<u>151</u>
Total employment			
ADMINISTRATIVE SERVICES AND SUPPLIES			
Office supplies		2,503	
Furniture		2,289	
Postage		552	
Computers and software		5,497	
Dues and membership		971	
Telephone		4,804	
Printing and publishing		2,262	
Liability insurance		19,251	
Bank fees		220	
	<u>41,960</u>	<u>38,349</u>	<u>3,611</u>
Total administrative services and supplies			
CONTRACTUAL SERVICES			
Grounds maintenance		23,183	
Accounting		4,263	
Computer		3,690	
Auditing services		8,500	
Attorney fees		2,130	
	<u>38,350</u>	<u>41,766</u>	<u>(3,416)</u>
Total contractual services			

HARTLAND DEERFIELD FIRE AUTHORITY
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL (continued)
FOR THE YEAR ENDED MARCH 31, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
OPERATING SUPPLIES			
Uniforms and protective clothing		2,662	
Employee support		1,051	
Janitorial		1,500	
Fire prevention		1,934	
Operating supplies		2,069	
Tools		682	
Small equipment		1,168	
Medical supplies		2,046	
Foam		3,687	
Cellular phones		7,482	
Radio equipment		4,860	
Fuel		22,629	
	<u>45,853</u>	<u>51,770</u>	<u>(5,917)</u>
Total operating supplies			
REPAIRS AND MAINTENANCE			
Equipment repairs		4,288	
Vehicle repairs		47,597	
Building repairs		1,851	
Radios - repairs		1,132	
Administrative supplies - repairs		1,660	
	<u>55,460</u>	<u>56,528</u>	<u>(1,068)</u>
Total repairs and maintenance			
UTILITIES			
Gas		13,077	
Electricity		15,417	
Sewer		680	
Water		411	
	<u>29,580</u>	<u>29,585</u>	<u>(5)</u>
Total utilities			
CAPITAL OUTLAY			
Equipment - operating		9,350	
Debt service - principle		96,397	
Debt service - interest		13,469	
	<u>119,316</u>	<u>119,216</u>	<u>100</u>
Total capital outlay			
Total expenditures	<u>\$ 1,121,577</u>	<u>\$ 1,093,256</u>	<u>\$ 28,321</u>

PFEFFER ■ HANNIFORD ■ PALKA
Certified Public Accountants

John M. Pfeffer, C.P.A.
Patrick M. Hanniford, C.P.A.
Kenneth J. Palka, C.P.A.

Members:
AICPA Private Practice Companies Section
MACPA

225 E. Grand River - Suite 104
Brighton, Michigan 48116-1575
(810) 229-5550
FAX (810) 229-5578

August 12, 2008

Board of Trustees
Hartland Deerfield Fire Authority
3205 Hartland Road
Hartland, MI 48353

Dear Honorable Board of Trustees:

During our audit of the Hartland Deerfield Fire Authority we came across various matters that we would like to discuss with you as part of our audit presentation for the year ending March 31, 2008.

The matters which we would like to discuss with you are as follows:

There is a new auditing standard (SAS #112) which we are required to follow as your auditing firm. This new standard relates to more formal communications by us to you regarding significant deficiencies in your internal controls and accounting procedures.

There are certain issues (deficiencies) which were previously considered general comments but under the new standard are now considered significant deficiencies.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

We consider the following to be material weaknesses of the Authority.

- Journal entries were required during the audit to ensure the financial statement presentation was in conformity with generally accepted accounting principles. It should be noted that these journal entries were related to the full-accrual presentation of the government-wide statements (converting fund financial statements to full accrual statements).
- The Authority has one individual maintaining the general ledger, reconciling the bank accounts, writing and posting checks, and signing checks (ability to disburse funds). We consider this a lack of segregation of duties.

As you are aware we have previously discussed the above weaknesses with you. The following is your response:

Response by Management

We understand that you must follow the aforementioned auditing standard to complete the audit in accordance with Generally Accepted Auditing Standards as applicable to the audit of the Authority.

In regards to point number one (1) of the above material weaknesses, we prefer that you as our auditing firm continue to make the applicable journal entries to convert the fund financial statements to full accrual statements as required by GASB 34. We believe the costs to circumvent this comment would outweigh the benefits to the Authority. Therefore, we completely understand the comment and request that Pfeffer, Hanniford & Palka, CPA's continue to make the conversion journal entries in the future.

In regards to point number two (2) of the above material weaknesses, we understand that one person is conducting various overlapping accounting functions and there is clearly a lack of segregation of duties. However, as you know we are a very small organization and the costs to circumvent this problem outweigh the benefit of improved controls. Until the Authority can afford to hire additional personnel we can not change this practice.

Other Matters

1. We noticed while analyzing the fire runs revenue account there was a difference between the general ledger and the billing system of approximately \$1,200 (billing system showed more revenues). After the staff of the Hartland Deerfield Fire Authority did some investigating, it was found that a deposit dated December 27, 2007 was not made. The related checks and deposit slip was found in some miscellaneous files. The deposit was recently made. In the future, we recommend deposits be made as soon as possible (day received if possible) so as to reduce the risk of losing the checks prior to deposit.

In subsequent testing we noticed a check written to the Authority on May 1, 2008 was not deposited until July 14, 2008.

In our discussion with staff of Hartland Deerfield Fire Authority it has come to our attention there seems to be some confusion as to who should be making deposits.

The following is our response and explanation:

Since the accountant does bank reconciliations and has ability to disburse funds we suggest someone outside of the accounting process make the deposits such as the Chief or another employee especially when there is cash involved. The deposit should be made after the accountant has posted the transaction to the general ledger. When the Chief or other employee is not available and will not become available for some time it is better for the accountant to make the deposit (if no cash is included) on a timely basis.

2. As noted in the prior year comments, there were several outstanding checks over several months old. The Authority should take appropriate steps in clearing these checks from the outstanding list.
3. Checks written to the Authority are not stamped "For Deposit Only" until they are prepared for deposit. We suggest the checks be stamped immediately, such as when mail is opened.

4. We noted the Authority's new plan administrator, (deferred compensation plan) First Investors, does not provide reports which show employees contributions and employer's contributions separately. The Authority should request these types of reports in order to match with its records.
5. In the comments noted for March 31, 2007 we noted a Homeowner's Association did not pay its fourth quarter fee for fire protection services of \$8,215 which was recorded as a receivable for March 31, 2007. The outstanding amount was not received by the Authority through March 31, 2008. The amount remains as a receivable. This amount should be collected or written-off as a bad debt expense in the year ending March 31, 2009.

We also noted the Homeowner's Association did not pay the full annual fee for March 31, 2008. The amount was short \$230 which also should be collected.

6. During the time we spent conducting fieldwork on-site at the fire station in Hartland we noted the ease of accessibility of going in and out. We suggest accessibility be more limited. The bay doors should only be opened when personnel are present in the bay areas. We believe this would increase overall security at the station.
7. The Authority does not maintain a list of employees with access to the various software systems. Also, passwords are not changed on a consistent basis. An individual should be made responsible for maintaining such records as well as issuing new passwords on a consistent interim basis.
8. We noted that the Chief is allowed to waive fees and (or) write-off receivables. However, a list of waived fees or write-offs of accounts receivable do not go before the Board for their review. We suggest a policy be adopted in which the board has an opportunity to review the aforementioned either monthly or quarterly. This list should reconcile with the billing system and general ledger.
9. While discussing personnel policies with the Authority staff we noted there is no conflict of interest or related party policies approved by the Board in writing. It does appear there are verbal policies. The Authority should consider approving written policies in these areas.

This letter does not affect our report dated August 12, 2008 on the financial statements of the Hartland Deerfield Fire Authority.

We will review the status of these matters during our next audit engagement. We have already discussed these with various Authority personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the Board of Trustees and management of the Hartland Deerfield Fire Authority and is not intended to be and should not be used by anyone other than the specified parties.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants